

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35993; File Nos. SR-Phlx-95-08, SR-Amex-915-12, SR-PSE-95-07, SR-CBOE-95-19, SR-NYSE-95-12]

Self-Regulatory Organizations; Order Approving Proposed Rule Changes by the Philadelphia Stock Exchange, Inc., the American Stock Exchange, Inc., the Pacific Stock Exchange, Inc., the Chicago Board Options Exchange, Inc., and the New York Stock Exchange, and Amendment No. 1 by the Chicago Board Options Exchange, Inc., Amendment No. 1 by the Pacific Stock Exchange, Inc., Amendment No. 1 by the New York Stock Exchange, and Amendments Nos. 1 and 2 by the Philadelphia Stock Exchange, Inc., and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 3 by the Philadelphia Stock Exchange, Inc., Amendment No. 2 by the Pacific Stock Exchange, Inc., Amendment No. 2 by the Chicago Board Options Exchange, Inc., and Amendment No. 1 by the American Stock Exchange, Inc., to Adopt a 2½ Point Strike Price Pilot Program

July 19, 1995.

I. Introduction

On February 6, March 8, March 8, March 15, and March 22, 1995, respectively, the Philadelphia Stock Exchange, Inc. ("Phlx"), the American Stock Exchange, Inc. ("Amex"), the Pacific Stock Exchange, Inc. ("PSE"), the Chicago Board Options Exchange, Inc. ("CBOE"), and the New York Stock Exchange ("NYSE") (collectively the "Exchanges") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² proposed rule changes to adopt a pilot program, whereby the Exchanges may select a certain number of their listed options for inclusion in a twelve month pilot program for the listing of strike prices at 2½ point intervals.

On March 10, 1995, the Phlx submitted to the Commission Amendment No. 1 to its proposal.³ On

March 24, March 27, March 29 and March 29, 1995, the PSE, the CBOE, the Phlx, and the NYSE submitted Amendment Nos. 1, 1, 2, and 1, respectively, to their proposals.⁴ On June 14, June 14, June 30, and July 6, the Phlx, the PSE, the CBOE, and the Amex submitted Amendments Nos. 3, 2, 2, and 1, respectively, to their proposals.⁵

Notices of the Exchanges' proposals and Amendment No. 1 to the CBOE's proposal, Amendment No. 1 to the PSE's proposal, Amendment Nos. 1 and 2 to the Phlx's proposal, and Amendment No. 1 to the NYSE's proposal were published for comment in the **Federal Register** on May 12, 1995.⁶ No comments were received on

in Phlx Rule 1012, Commentary .05, in order to be consistent with CBOE Rule 5.5, Interpretation .01, in that strike price intervals may be \$10 "or greater" where the strike price is \$200 or more. See Letter from Gerald O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Michael Walinskas, Branch Chief, Office of Market Supervision ("OMS"), Division of Market Regulation ("Market Regulation"), Commission, dated March 10, 1995 ("Phlx Letter, dated March 10, 1995").

⁴ The PSE, the CBOE, the Phlx, and the NYSE submitted amendments in order to codify the extended duration of the pilot program from six to twelve months. See Letters from Timothy Thompson, Attorney, CBOE, dated March 27, 1995 ("CBOE Letter, dated March 27, 1995"), Michael Pierson, Senior Attorney, PSE, dated March 24, 1995 ("PSE Letter, dated March 24, 1995"), to John Ayanian, Attorney, OMS, Market Regulation, Commission, and Letters from Gerald O'Connell, First Vice President, Phlx, dated March 29, 1995 ("Phlx Letter, dated March 29, 1995"), and Daniel Parker Odell, Assistant Secretary, NYSE, dated March 29, 1995 ("NYSE Letter, dated March 29, 1995"), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission.

The Amex also submitted a clarifying amendment to extend the pilot program from six to twelve months, but did not codify the duration of the pilot program in its rules. See Letter from Claire McGrath, Special Counsel, Amex, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated April 3, 1995 ("Amex Letter, dated April 3, 1995").

The NYSE also submitted Amendment No. 1 to amend the text of proposed Supplementary Material .30(f) and .30(f)(i) to NYSE Rule 703 to list 2½ strike prices for 14 options, instead of 11 options as originally stated.

⁵ The Phlx, PSE, CBOE, and Amex propose to amend their filings to conform with NYSE's proposal, in that the Exchanges would not require the listing of 2½ point strikes for all expiration months in selected option classes. See Letters from Gerald O'Connell, First Vice President, Market Regulation and Trading Floor Operations, Phlx, dated June 14, 1995 ("Phlx Letter, dated June 14, 1995"), David Semak, Vice President, Regulation, PSE, dated June 14, 1995 ("PSE Letter, dated June 14, 1995"), and Claire McGrath, Special Counsel, Amex, dated July 6, 1995 ("Amex Letter, dated July 6, 1995") to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission. See also Letter from Timothy Thompson, Attorney, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated June 30, 1995 ("CBOE Letter, dated June 30, 1995").

⁶ See Securities Exchange Act Release No. 35680 (May 5, 1995), 60 FR 25752 (May 12, 1995).

the proposals.⁷ This order approves the proposed rule changes, as amended.

II. Description of the Proposals

The Exchanges have submitted a joint proposal regarding the listing of 2½ point strike prices for selected equity options on a pilot basis. The pilot program would operate for a twelve-month period commencing on Monday, July 24, 1995, which is the Monday following the July 1995 expiration. Currently, the Exchanges list strike prices for equity options at 5 point intervals, where the strike price is between \$25 and \$200.⁸

The Exchanges propose to list selected options trading at a strike price greater than \$25 but less than \$50⁹ (i.e., 27½, 32½, 37½, 42½ and 47½¹⁰ at 2½

⁷ Before the proposals were published for comment, the Committee on Options Proposals ("COOP") indicated that it favors the Exchanges' proposed 2½ point strike pilot program. See Letter from Michael Schwartz, Chairman, COOP, to Jonathan Katz, Secretary, Commission, dated April 5, 1995.

⁸ See Securities Exchange Act Release No. 21985 (April 25, 1985), 50 FR 18595 (May 1, 1985) (Approving File Nos. SR-Phlx-85-9 and SR-PSE-85-9, amending both exchanges' policies regarding strike price intervals to conform to those of the other options exchanges); see also Securities Exchange Act Release No. 21929 (April 10, 1985), 50 FR 15258 (April 17, 1985) (File Nos. SR-CBOE-85-1 and SR-Amex-85-6).

⁹ Proposed NYSE Rule 703, Supplementary Material .30(f) states that selected options may be listed at 2½ point strike price intervals "if the strike price for that series is greater than \$25.00, but is less than or equal to \$50.00." While the NYSE has proposed slightly different language to make the proposed rule consistent with other NYSE rules, the NYSE proposal allows for the listing of 2½ point strike prices at 27½, 32½, 37½, 42½ and 47½ in accordance with the terms of the pilot program. Telephone conversation between Gary Katz, Managing Director, Options and Index Products, NYSE, and John Ayanian, Attorney, OMS, Market Regulation, Commission, on May 2, 1995.

The Phlx and Amex submitted clarifying amendments to their proposals to indicate that the pilot program does not apply to options classes where the *underlying stock* is trading between \$25 and \$50, rather it includes equity options trading at a *strike price* between \$25 and \$50. See Letter from Gerald D. O'Connell, First Vice President, Market Regulation and Trading Operations, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated June 14, 1995 ("Phlx Letter, dated June 14, 1995"). See also Amex Letter, dated July 6, 1995, *supra* note 6.

¹⁰ The applicable strike price codes will be Y 27½; Z 32½; U 37½; V 42½; and W 47½. The CBOE, Amex, and NYSE submitted clarifying amendments to their proposals to indicate, among other things, that each exchange intends to use these strike price codes for the additional strike price intervals. See Letter from Timothy Thompson, Attorney, CBOE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated May 4, 1995 ("CBOE Letter, dated May 4, 1995"). See also Letters from Claire McGrath, Special Counsel, Amex, dated June 6, 1995 ("Amex Letter, dated June 6, 1995"), and James E. Buck, Senior Vice President, NYSE, dated June 15, 1995 ("NYSE Letter, dated June 15, 1995"), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission.

¹¹ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Phlx submitted Amendment No. 1 to add the phrase "or greater" to the last clause of the text

point intervals. The Exchanges would generally list 2½ point strike prices in selected options for all expiration months on all participating exchanges, but not for long-term options (LEAPS).¹¹ Pursuant to the pilot program, the Exchanges would be permitted to use such 2½ point strike price intervals for a joint total of up to 100 option issues. Each exchange may select 10 options plus a percentage of the remaining 50 options equal to that exchange's pro rata share of the total number of equity options listed by the Exchanges.¹² If an exchange chooses a multiply-traded option for its allotment, any other exchange trading that option would be allowed to subsequently list 2½ point strike prices without having such listing count toward that other exchange's allotted amount.

When more than one exchange selects a multiply-traded option for its allotment, the Options Clearing Corporation ("OCC") will determine which exchange will be deemed to have selected the option according to the following procedures. The Exchanges have agreed that an exchange ("Selecting Exchange") intending to list 2½ point strikes on an option will inform OCC of its selection by submitting a notice ("Selection Notice") to OCC between the hours of 8:30 a.m. and 12:00 Noon (Central Time). In the event that more than one exchange submits a Selection Notice to the OCC for the same multiply-traded option, the exchange which first submits a Selection Notice to the OCC will be deemed to be the Selecting Exchange for that option. Such option will count toward the allotment of the Selecting Exchange, but not toward the allotment of any other exchange submitting a Selection Notice under the terms of the pilot program.¹³

In implementing the proposals, the Exchanges note that the pilot program effectively adds five additional strike prices to each of the applicable classes of equity options, thereby creating a

significant number of new strikes, including both puts and calls for all four listed expiration months.¹⁴ The Exchanges believe that limiting the pilot program to 100 selected equity options is a reasonable alternative to adding 2½ point strike price intervals for all equity options trading at a strike price greater than \$25 but less than \$50. Further, the Exchanges believe that the allocated number of options limits the number of new strike prices while providing important investment opportunities for selected options.¹⁵ Additionally, both the Exchanges¹⁶ and the Options Price Reporting Authority ("OPRA"),¹⁷ represent that each will have adequate computer processing capacity to

¹⁴ The Exchanges submitted clarifying amendments to their proposals to indicate that the maximum number of allotted new strikes created as a result of this pilot program for each exchange is: CBOE (1,120); Amex (880); Phx (720); PSE (720); and NYSE (560). See Letter from Michael Pierson, Senior Attorney, Market Regulation, PSE, to John Ayanian, Attorney, OMS, Market Regulation, Commission, dated May 11, 1995, and Letter from Gerald O'Connell, First Vice President, Market Regulation and Trading Operations, Phlx, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated May 16, 1995. See also CBOE Letter, dated May 4, 1995; Amex Letter, dated June 6, 1995; and NYSE Letter, dated June 15, 1995, *supra* note 10. These figures do not include LEAPs or new strikes created from multiply-traded options simultaneously selected by more than one exchange in accordance with the terms of the pilot program.

¹⁵ The Amex notes in its proposal that certain low volatility stocks of highly capitalized companies usually trade in fairly narrow price ranges. Amex further notes that options on such stocks generally have limited trading activity since in-the-money options sell for little more than intrinsic value and out-of-the-money options yield little premium income to attract uncovered or covered writers. (See File No. SR-Amex-95-12).

The NYSE notes in its proposal that it anticipates selecting its allotment from among those options that overlie less volatile stocks. The NYSE believes that the market for options that overlie low volatility stocks will benefit from the pilot program because options series with strike prices that are closer to the price of the underlying stock will be available. Consequently, expanded options strategies will be available to investors. (See File No. SR-NYSE-95-12).

¹⁶ See Letters from Michael Pierson, Senior Attorney, Market Regulation, PSE, dated June 6, 1995 ("PSE Capacity Statement"), and Edward Provost, Senior Vice President, CBOE, dated June 5, 1995 ("CBOE Capacity Statement"), to John Ayanian, Attorney, OMS, Market Regulation, Commission. See also Memorandum from Donna Gervasi, Phlx, to Gerald O'Connell, First Vice President, Market Regulation and Trading Floor Operations, Phlx, dated June 8, 1995, which is enclosed in letter from Gerald O'Connell, dated June 8, 1995 ("Phlx Capacity Statement"), and Letter from Wendy Hoffman, Amex, dated June 23 ("Amex Capacity Statement"), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission. See also NYSE Letter, dated June 15, 1995, *supra* note 10.

¹⁷ See Letter from Joseph P. Corrigan, Executive Director, OPRA, to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated June 27, 1995 ("OPRA Capacity Statement").

accommodate the additional strike prices.

Further, the Exchanges believe that the addition of 2½ point strike price intervals will stimulate customer interest by creating greater trading opportunity and flexibility. The Exchanges believe that 2½ point strikes will provide customers the ability to more closely tailor investment strategies to the precise movement of the underlying security. The Exchanges also believe that an increase in customer interest will, in turn, enhance the depth and liquidity of the markets in the selected equity options.

III. Commission Finding and Conclusions

The Commission finds that the proposed rule changes are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b)(5).¹⁸ Specifically, the Commission believes that the proposed listing of 2½ point strike price intervals in selected equity options on a pilot basis will provide investors with more flexibility in the trading of equity options with a strike price greater than \$25 but less than \$50, thereby furthering the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the Exchanges' proposal strikes a reasonable balance between the Exchanges' desire to accommodate market participants by offering a wide array of investment opportunities and the need to avoid excessive proliferation of options series. The Commission expects the Exchanges to monitor the applicable equity options activity closely to detect any proliferation of illiquid options series resulting from the narrower strike price intervals and to act promptly to remedy this situation should it occur.

In addition, based on the representations from OPRA, the Commission believes that adequate computer processing capacity to accommodate the additional strike prices is currently available.¹⁹ The Exchanges also represent that their current systems capacities are sufficient to meet the expected demands of the additional strike prices.²⁰ Nevertheless, the Commission requests that the Exchanges monitor the trading volume

¹⁸ 15 U.S.C. 78f(b)(5).

¹⁹ See OPRA Capacity Statement, *supra* note 17.

²⁰ See PSE Capacity Statement, Phlx Capacity Statement, Amex Capacity Statement, and CBOE Capacity Statement, *supra* note 16. See also NYSE Letter, dated June 15, 1995, *supra* note 10.

¹¹ The Exchanges do not propose to require the listing of 2½ point strikes for all expiration months in selected option classes. See NYSE Letter, dated June 15, 1995, *supra* note 10. See also Phlx Letter, dated June 14, 1995; PSE Letter, dated June 14, 1995; CBOE Letter, dated June 30, 1995; and Amex Letter, dated July 6, 1995, *supra* note 6.

¹² The actual allotment of option issues for each exchange is: CBOE (28), Amex (22), Phlx (18), PSE (18), and NYSE (14). The Amex submitted a clarifying amendment to indicate that its allotment of option issues pursuant to the pilot program is 22. See Amex Letter, dated June 6, 1995, *supra* note 10. See also NYSE Letter, dated March 29, 1995, *supra* note 4.

¹³ See Letter from James C. Yong, First Vice President and General Counsel, Options Clearing Corporation ("OCC"), to Michael Walinskas, Branch Chief, OMS, Market Regulation, Commission, dated July 6, 1995 ("OCC Letter, dated July 6, 1995").

associated with the additional options series listed as a result of the pilot program and the effect of these additional series on the capacity of the Exchanges', OPRA's, and vendors' automated systems.

The Commission notes that the Exchanges intend to commence this pilot program on July 24, 1995.²¹ In the event an exchange desires to extend the pilot program beyond the twelve month period, it should submit a report to the Commission before May 31, 1996. The report should cover the ten month period from July 24, 1995 to May 20, 1996, and should include data and written analysis on the open interest and trading volume in affected series, and delisted options series (for all strike price intervals) on the selected pilot program option classes. The exchange should also discuss any capacity problems that may have arisen during the pilot program and provide any other data it believes is relevant to the analysis of the pilot program.

In sum, the Commission finds the Exchanges' proposal to implement a twelve month pilot program to list 2½ point strike price intervals in selected equity options with strike prices between \$25 and \$50 should provide investors with more flexibility to establish equity options positions that may be better tailored to meet their investment objectives.

The Commission finds good cause for approving Amendment Nos. 3, 2, 2, and 1, respectively, to the Phlx's, the CBOE's, the PSE's, and Amex's proposals, prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**.

Specifically, the amendments conform other exchanges' proposals with the NYSE's proposal, in that the Exchanges will not be required to list 2½ point strikes for all expiration months in selected option classes. The Commission notes that the NYSE proposal was subject to a full notice and comment period, and no comments were received.

Accordingly, the Commission believes that it is consistent with Section 6(b)(5) of the Act to approve Amendment Nos. 3, 2, 2, and 1, respectively, to the Phlx, PSE, CBOE, and Amex proposals on an accelerated basis.

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 3, 2, 2, and 1, respectively, to the Phlx, PSE, CBOE, and Amex proposals. Persons making written submissions should file six copies thereof with the

Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal offices of the Exchanges. All submissions should refer to File Nos. SR-Phlx-95-08, SR-PSE-95-07, SR-CBOE-95-19, and SR-Amex-95-12 and should be submitted by [insert date 21 days after the date of this publication].

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²² that the proposed rule changes (SR-Phlx-95-08, SR-Amex-95-12, SR-PSE-95-07, SR-CBOE-95-19, and SR-NYSE-95-12), as amended, are approved through July 15, 1996.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²³

Margaret H. McFarland,

Deputy Secretary.

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Issuer Delisting; Notice of Application to Withdraw From Listing and Registration; (Xerographic Laser Images Corporation, Common Stock, \$.01 Par Value, Preferred Stock, \$.01 Par Value) File No. 1-11236

July 19, 1995.

Xerographic Laser Images Corporation ("Company") has filed an application with the Securities and Exchange Commission ("Commission"), pursuant to section 12(d) of the Securities Exchange Act of 1934 ("Act") and Rule 12d2-2(d) promulgated thereunder, to withdraw the above specified securities ("Securities") from listing and registration on the Boston Stock Exchange, Inc. ("BSE").

The reasons alleged in the application for withdrawing the Securities from

listing and registration include the following:

According to the Company, it wishes to withdraw its Securities from listing and registration on the BSE. The Company does not meet the minimum maintenance requirements of the BSE and, therefore, in accordance with the rules of the BSE, the Company has filed an application for voluntary delisting with the BSE. The Securities will trade on the Nasdaq Bulletin Board following delisting.

Any interested person may, on or before August 10, 1995, submit by letter to the Secretary of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549, facts bearing upon whether the application has been made in accordance with the rules of the BSE and what terms, if any, should be imposed by the Commission for the protection of investors. The Commission, based on the information submitted to it, will issue an order granting the application after the date mentioned above, unless the Commission determines to order a hearing on the matter.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Johathan G. Katz,

Secretary.

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SMALL BUSINESS ADMINISTRATION

[Declaration of Disaster Loan Area #2782; Amdt. #2]

Illinois; Declaration of Disaster Loan Area

The above-numbered Declaration is hereby amended, effective June 30, 1995, to include Fulton County in the State of Illinois as a disaster area due to damages caused by severe storms and flooding beginning on May 15, 1995 and continuing through June 15, 1995.

In addition, applications for economic injury loans from small businesses located in the contiguous counties of Knox, Peoria, and Warren may be filed until the specified date at the previously designated location.

Any counties contiguous to the above-named primary county and not listed herein have been previously declared.

All other information remains the same, i.e., the termination date for filing applications for physical damage is July 29, 1995, and for loans for economic injury the deadline is March 1, 1996.

The economic injury number for Illinois is 853300.

²¹ See OCC Letter, dated July 6, 1995, *supra* note 13.

²² 15 U.S.C. 78s(b)(2).

²³ 17 CFR 200.30-3(a)(12).